

Managing for Profits in an Environmentally Controlled and “Commoditized” Supply Chain

Lessons from the Agriculture Industry

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Agenda

- History of Sun World International
- Industry Structure and Associated Issues
- Operational Issues at Sun World International
- Transformational Value Levers
- Utilizing the Cold Chain as a Market Advantage
- Transformational Risks
- Lessons Learned and The Future

History of Sun World International



- Sun World first sunk its roots into the fresh fruit and vegetable industry back in 1976. Today, Sun World is proud to be a renowned grower, marketer and breeder of premium varieties with a full line of tasty **seedless grapes, sweet peppers, stonefruits and other distinctive fruits and vegetables that'll pique your taste buds**. We boast over **10,000 acres of farming land and 950 domestic and international licensed partner growers**. Plus we manage the farming, packing and marketing operations for a large part of our U.S. grown produce.
- Creating such an extensive international network featuring many proprietary products such as the **MIDNIGHT BEAUTY®** brand grape, the **SCARLOTTA SEEDLESS®** brand grape, and the **BLACK DIAMOND®** brand plum has led to offices in Italy, Australia, Chile, Mexico and South Africa.
- **Sun World** is committed to naturally breeding the highest quality grapes, peppers and stone fruits, we've created an **innovative Research and Variety Development Program** to improve the flavor and overall quality of our offerings. We've also developed early and late season varieties that extend seasonal availability, meaning you have more opportunities to let those taste buds run wild.
- HOWEVER, DUE TO THE VARIOUS ISSUES FACING MID SIZE GROWERS , THE COMPANY HAS EMERGED OUT OF TWO STINTS IN BANKRUPTCY AND CHANGES IN OWNERSHIP
- The Transformational journey began in 2007 and continues today.....

Other Inherent Industry Issues

- Production cannot be controlled except at beginning of season
- Shelf life of products is less than 3 weeks
- Customer contracts are largely unavailable
- Pricing fluctuations can be daily
- Exports incur significant additional costs and risks
- FDA “requirements” for track and trace has added significant costs to an already stressed structure
- Cold Chain constructs / mandates adds cost elements that have to be absorbed
- Customer “requests” mandate pick and ship schedules

Operational Issues Facing Sun World



OPERATIONS

- Insufficient level of collaboration between HHP and sales in the area of operational planning
- Lack of a formal inventory management process for packaging materials and chemicals
- No visibility to packaging and chemical inventory in IT systems
- Lack of centralized and comprehensive byproduct management process
- Packaging variety adds an additional level of complexity and increases cost
- Most operations heavily rely on manual labor and have sub-standard productivity level except HHP
- “Maverick” procurement of transportation services (outbound and hauling)
- Packaging and chemical inventory are handled outside of company’s ERP system
- Lack of balance between in-house and outsourced activities and assets
- Lack of emphasis on end customer and yield management
- No formal MRP solution presents serious efficiency and accuracy issues

ORGANIZATIONAL STRUCTURE

- Silo-oriented mode of operation limits internal and external progress
- Lack of field sales force structure results in over focusing on inside sales
- Lack of commission-based compensation does not incentivize proactive behavior from sales
- Lack of formalized Customer Service department significantly reduces Sales capability to focus on account management and generation
- No centralized effort for utilization of byproducts
- Formalize transportation manager role and usage of STC

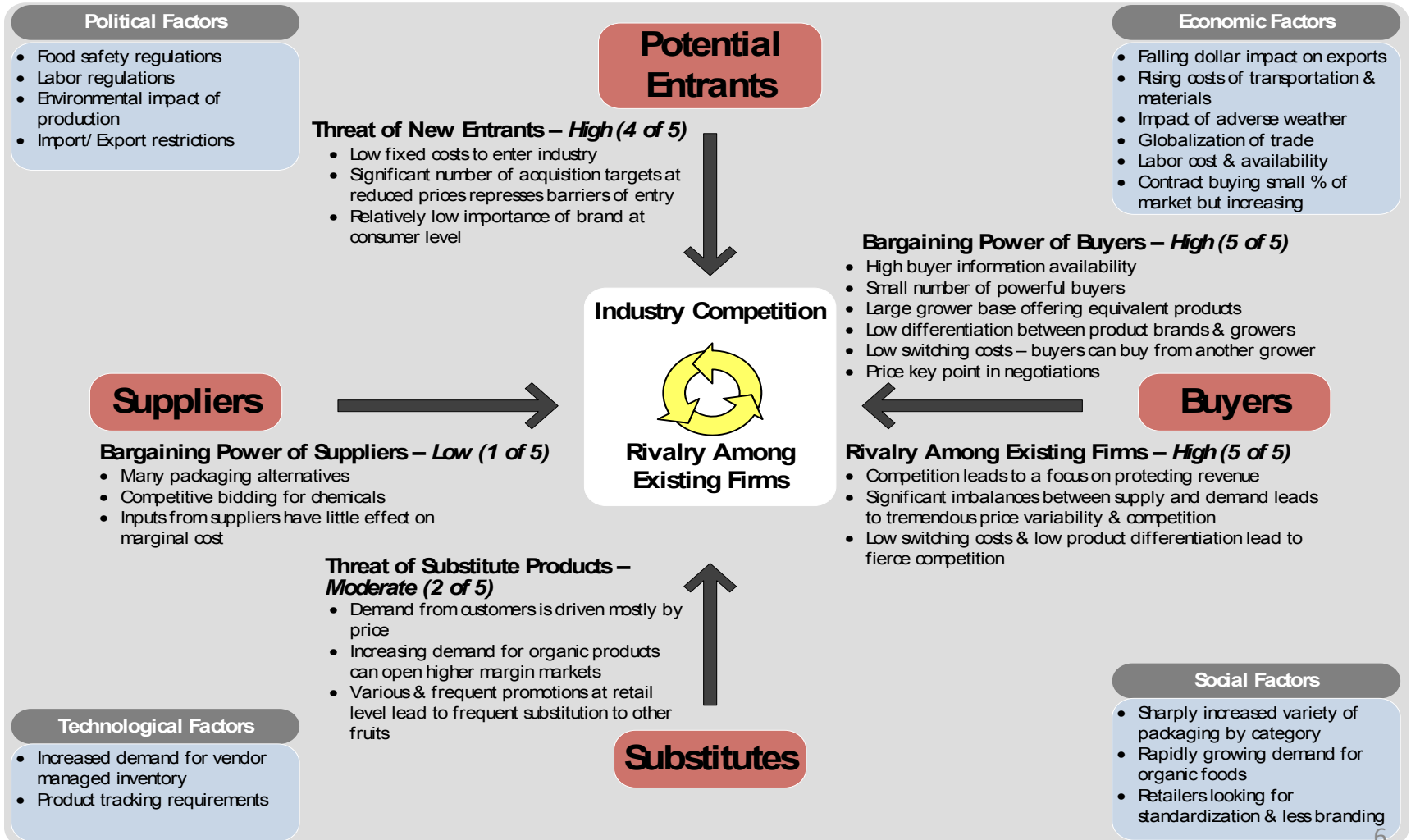
SALES AND MARKETING

- Lack of comprehensive and collaborative short and long-term planning involving harvest and procurement
- Cumbersome and time-consuming access to relevant sales information
- High focus toward branding in the commodity-driven market should be balanced with bundling of product and service
- Playing a role of a seller as opposed to a role of a service provider (e.g. EDI/ POS-driven VMI)
- Insufficient development of regional markets
- Insufficient development of a 2nd tier retail market

BACK OFFICE

- Existing IT systems are antiquated, “piece-meal” based and are not report friendly
- The “know-how” of existing IT systems resides with 1-2 individuals at most
- Both Accounting and Human Resources are overstaffed due to a very high level of manual work
- Accounting formal structure based on departments being profit centers enforces functional silo-based mentality and is an obstacle on minimizing total supply chain cost and increased level of collaboration

Grape Industry Background



Transformation Improvement Pillars

Sun World Improvement Pillars

Labor Productivity

- Process automation
- Reduction of complexity
- “Retention of “know-how”
- Productivity-focused R&D

Price Management

- Value proposition to retail
- “Product basket” all year around
- Organic Strategy

Operational Streamlining

- Integrated planning
- Centralized procurement
- Consumer-centric R&D
- Process standardization

Margin Management

- Vertical integration
- Marketing contracts

Information Technology

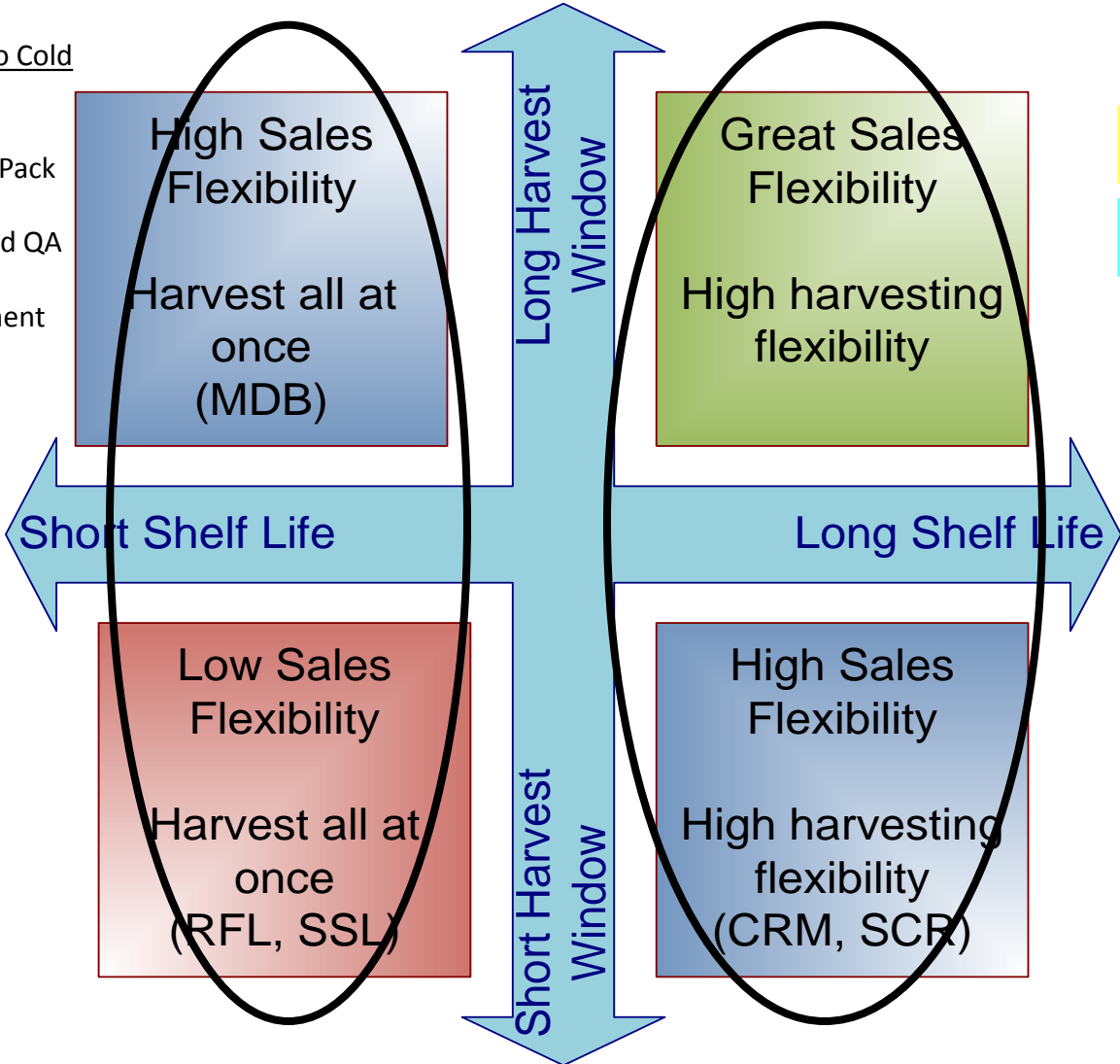
- Data Integrity and Instant availability
- Visibility throughout organization
- Business intelligence



Utilizing Pricing and Operational Characteristics into a Value Added Cold Chain

Less cost into Cold Chain

- Use Field Pack
- Use of segmented QA
- Order Management "push"



Excellent pricing position (Green box)

Good pricing position (Reddish-brown box)

Poor pricing position (Red box)

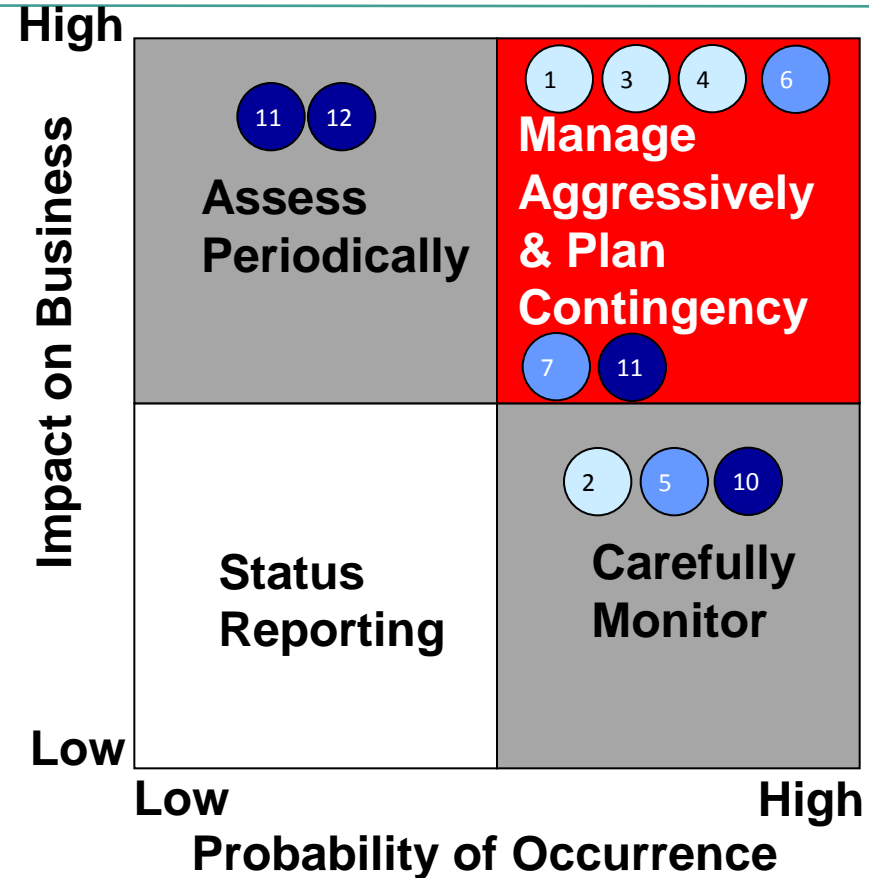
More cost into Cold Chain

- Use field reefers
- Use "Cut to Cool" marketing
- Use of segmented QA
- Order Management "holds"

Transformation Program Risk(s)

Driving down and mitigating risk

- Program Level Risks
 - ① ▶ Inability for company to maintain transformational view
 - ② ▶ Create the appropriate funding structure
 - ③ ▶ Ability to attract skilled talent
 - ④ ▶ Adopting a process centric mandate at multiple levels
- Implementation Risk
 - ⑤ ▶ Manage the Program as a Portfolio for complete findings
 - ⑥ ▶ Use appropriate skills to drive change- "Do not try and fit a square peg into a round hole"
 - ⑦ ▶ Transformation office should be empowered and headed by a senior executive
- Internal Risk
 - ⑩ ▶ Ability to articulate requirements clearly & timely
 - ⑪ ▶ Internal team's ability to drive change
 - ⑫ ▶ Data integrity and migration in timely manner





Lessons Learned

- ✓ Develop a Clear Vision – Champion with Support and Authority
- ✓ Share The Vision
- ✓ Insist on Realism
- ✓ Identify Business Drivers
 - Focus
 - Empower
- ✓ Clear Goal and Timeline
- ✓ Do not let Drag
 - Identify and Execute



The Future- Style 2

Continuous Improvement
Personnel & Process

Instantaneous Access
To Information

Automation & Touch Points
Warehouse Management
Sales Order Process
Transparency